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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

AMENDED SCOPING MEMO AND RULING OF ASSIGNED COMMISSIONER

1. Summary

This Amended Scoping Memo and Ruling of Assigned Commissioner (Amended Scoping Memo) does the following: (1) issues the Energy Division's "Staff Proposal for Residential Rate Reform: in Compliance with Rulemaking 12-06-013 and Assembly Bill 327," (2) amends the scope of Phase 1 of this proceeding and re-categorizes it as ratesetting, and (3) sets the category for Phase 2 of this proceeding as ratesetting.

2. Background

The California Public Utilities Commission (Commission) initiated this Order Instituting Rulemaking (OIR), "to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant

and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹

On November 26, 2012, the assigned Commissioner issued the original Scoping Memo and Ruling.

On March 19, 2013, the assigned Administrative Law Judge (ALJ) issued the Ruling Requesting Residential Rate Design Proposals. The Ruling Requesting Rate Design Proposals included the Principles for Rate Design, the Questions for Rate Design Proposals, and a list of Defined Terms for use in proposing and evaluating residential rate designs.

On May 29, 2013, Rate Design Proposals were filed by California Large Energy Consumers Association (CLECA); Distributed Energy Consumer Advocates (DECA); Office of Ratepayer Advocates (ORA);² Environmental Defense Fund (EDF); Interstate Renewable Energy Council, Inc. (IREC); Natural Resources Defense Council (NRDC); Pacific Gas and Electric Company (PG&E); San Diego Gas & Electric Company (SDG&E); San Diego Consumers' Action Network (SDCAN); Sierra Club, Solar Energy Industries Association, and The Vote Solar Initiative (Joint Solar Parties); Southern California Edison Company (SCE); The Greenlining Institute and Center for Accessible Technology (Greenlining/CforAT); and The Utility Reform Network (TURN).

On June 25, 2013, the Commission held a workshop to allow parties to present their Rate Design Proposals.

¹ OIR at 1.

² The Office of Ratepayer Advocates was formerly known as the Division of Ratepayer Advocates (DRA). *See* Stats. 2013, Ch. 356, Sec. 42.

On July 12, 2013, Opening Comments on the Rate Design Proposals were filed by: Consumer Federation of California (CFC), DECA, NRDC, IREC, SDCAN, EDF, ORA, SCE, Joint Solar Parties, CLECA, SDG&E, The Alliance for Solar Choice (TASC), Sierra Club, PG&E, Marin Energy Authority, Greenlining/CAT, Silicon Valley Leadership Group (SVLG), and TURN.

On July 26, 2013, Reply Comments on the Rate Design Proposals were filed by CFC, TURN, Greenlining/CAT, PG&E, IREC, NRDC, SCE, SDG&E, SDCAN, CLECA, ORA, EDF, Joint Solar Parties, and California Center for Sustainable Energy.

On October 7, 2013, Assembly Bill (AB) 327 was signed into law. AB 327 lifts many of the restrictions on residential rate design. With its passage, the utilities can now propose residential rates that are more reflective of cost, in keeping with the Commission's principle that rates should be based on cost-causation. AB 327 also contains limits designed to protect certain classes of vulnerable customers.

On October 25, 2013, the Assigned Commissioner issued a ruling (October 25, 2013 Ruling) opening Phase 2 of this proceeding and inviting utilities to submit limited rate change proposals. The three large utilities submitted rate change proposals on November 22, 2013, and a Phase 2 prehearing conference was held on December 5, 2013.

3. Energy Division (ED) Proposal

3.1. Purpose of the ED Proposal

ED has prepared the attached Staff Proposal for Residential Rate Reform: in Compliance with Rulemaking 12-06-013 and Assembly Bill 327 (ED Proposal). The ED Proposal represents both a recommended residential rate structure and a tool for evaluating residential rate designs. It summarizes and synthesizes party

proposals and comments and it identifies the rate design elements that ED believes best comport with the ten Rate Design Principles while also complying with AB 327 requirements. The ten Rate Design Principles are recapped in Section 4.2 below.

The ED Proposal recommends default time of use (TOU) for residential customers in 2018, provided that adequate protections are in place for vulnerable customers. The ED Proposal recommends a gradual transition path toward default TOU. Steps on that path include reducing the number of tiers and flattening the differential between tiers prior to 2018. The ED Proposal also contains recommendations for gradually bringing the effective California Alternate Rates for Energy (CARE) discount in line with the range set by AB 327. In addition to these specific recommendations, the ED Proposal discusses other rate design elements, such as fixed charges, bill minimums, and alternative structures for CARE rates.

The ED Proposal also points out that once the restrictions on increasing Tier 1 and Tier 2 rates are lifted, greenhouse gas costs can, and should, be incorporated into residential rates for all residential customers. (*See*, Decision 12-12-033 at 113-114.)

I envision the ED Proposal to be a tool for utilities to develop future residential rate designs, as well as a framework for parties to evaluate rate change requests and applications. I expect the ED Proposal will play an essential role in evaluating the rate change requests being considered in this proceeding.

3.2. ED Proposal Admitted Into Evidentiary Record

The ED Proposal is hereby admitted into the evidentiary record for R.12-06-013. Although adding the ED Proposal to the record does not give it the same weight as a policy recommendation adopted by the full Commission

pursuant to a decision, it may nonetheless serve as a useful reference and a tool for development and evaluation of new residential rate designs in accordance with AB 327.

Proposed corrections to the ED Proposal must be filed no later than January 20, 2014. Proposed corrections should be limited to perceived typographical errors, factual errors or mischaracterizations of a party position. If appropriate, ED will issue a revised proposal taking into account the proposed corrections. Substantive comments on the ED Proposal are not requested because, as discussed below, Phase 1 will be focused on specific post-2014 rate design changes going forward.

4. Phase 1 Scope

4.1. Change of Scope for Phase 1

The Commission has previously adopted rate design guidance requiring utilities to develop default rates based on dynamic pricing.

(*See, e.g.,* D.08-07-045.) In D.08-07-045³, the Commission ordered PG&E to propose default dynamic rates using critical peak pricing (CPP) and real-time pricing (RTP). At that time, AB 1X restrictions limited changes to residential rates. As a result, D.08-07-045 focused primarily on shifting large commercial users that were already on TOU rates to rates with an even higher degree of time-sensitivity. D.08-07-045 also ordered PG&E to file an application proposing a default residential rate based on time variant pricing (TVP) after AB 1X

³ D.08-07-045 did not order the other utilities to file default time variant rates but provided that the Commission may require SCE and SDG&E to follow the rate design guidance contained in D.08-07-045 in those utilities rate design proceedings. (D.08-07-045 at 83.)

restrictions were lifted. (D.08-07-045 at 99 (Ordering Paragraph 8.)) D.08-07-045 found that, for its purposes, CPP combined with TOU was the optimal TVP or dynamic pricing mechanism for residential rates. In contrast, in accordance with the AB 327 which prohibits defaulting residential customers to dynamic TVP rates, the ED Proposal endorses default TOU with an optional CPP overlay.

With the passage of AB 327, the Commission and the utilities now have the flexibility to implement default TOU residential rates starting in 2018. They also have the flexibility to make immediate changes to the existing tier system and to propose new fixed charges or bill minimums. Passage of AB 327 demonstrates the legislature's desire to lift constraints on residential rate design and move toward rates that are more closely aligned with costs.

Given that the Commission has already endorsed default TVP rates for residential customers once AB 1X restrictions are lifted, additional policy guidance at this time would be useful but is not necessary to move forward with specific utility rate design proposals. Therefore, Phase 1 should turn its focus from policy to actual rate design proposals and Phase 1 should be recategorized as ratesetting.

Phase 2 will continue to examine the interim rate design proposals filed in November 2013. The scope of Phase 1 will turn from optimal hypothetical rate design proposals for the future to actual rate design proposals for the post-2014 period. This will allow us to build on work already accomplished in this proceeding, and to evaluate rate design proposals in an efficient, fair, and consistent manner. It will also minimize the number of proceedings in which new residential rate designs are being examined and allow coordination to avoid schedule conflicts.

In addition to specific residential rate design for post-2014, Phase 1 will require the utilities to each develop their own transition path to 2018. The issues to be examined in Phase 1 will be further refined after the January 8, 2013 prehearing conference.

4.2. Phase 1: Rate Design Principles

Much has been accomplished in Phase 1 over the last 18 months. With the passage of AB 327 there is much greater flexibility in rate design and many of the obstacles to potential rate design improvements have been removed. During this proceeding, through the hard work of the parties, we have developed tools for evaluating rate designs: (1) the Principles for Rate Design, (2) the Questions for Rate Design Proposals, and (3) a list of Defined Terms. These resources can be found in the Ruling Requesting Rate Design Proposals. The 10 Rate Design Principles are repeated below. The ED Proposal uses all of these tools in its analysis of residential rate designs. We encourage parties to continue to use these tools going forward.

The 10 rate design principles developed in Phase 1 of R.12-06-013 are as follows:

1. Low-income and medical baseline customers should have access to enough electricity to ensure basic needs (such as health and comfort) are met at an affordable cost;
2. Rates should be based on marginal cost;
3. Rates should be based on cost-causation principles;
4. Rates should encourage conservation and energy efficiency;
5. Rates should encourage reduction of both coincident and non-coincident peak demand;
6. Rates should be stable and understandable and provide customer choice;

7. Rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals;
8. Incentives should be explicit and transparent;
9. Rates should encourage economically efficient decision-making;
10. Transitions to new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and appropriately considers the bill impacts associated with such transitions.

4.3. Evidentiary Record for Phase 1

This Amended Scoping Memo admits into evidence the bill impact calculators and the results of the utilities' customer survey. The bill impact calculators and the customer survey were relied on and cited in development of the Rate Design Proposals, parties' comments and the ED Proposal. No party objected to the use of these documents in developing the record. Parties' opinions may differ on the use and interpretation of the information contained in these documents. In order to ensure a full and complete record, however, these documents should now be admitted as evidence in this proceeding.

Because of the length of these documents, a copy is not attached to this ruling, but a hard copy will be retained in the Commission's Central Files Office.

5. Categorization of Phases 1 and 2

5.1. Category; Presiding Officer

The Commission is required to categorize all proceedings. The rules implementing this requirement are found in Article 7. Pursuant to Rule 7.2(e), when a proceeding may fit more than one category, the Commission may divide

the subject matter of the proceeding into different phases and the Commission may determine the category.

Phases 1 and 2 of this proceeding are now categorized as ratesetting. Originally, this proceeding was categorized as quasi-legislative. In the October 25, 2013 Ruling, I created two phases: Phase 1 to continue to examine optimal rate structures in a quasi-legislative rulemaking; and Phase 2 to examine specific rate change proposals. The October 25, 2013 Ruling invited each of PG&E, SDG&E, and SCE to file a request for interim residential rate changes in this docket. Because the rate change requests involve specific rates, the October 25, 2013 Ruling anticipated that Phase 2 would be categorized as ratesetting. Parties were directed to follow *ex parte* rules for ratesetting cases as set forth in the Rules 8.1, 8.2, 8.3, 8.5, and Section 1703(c) for any communications related to Phase 2 filings. This Amended Scoping Memo confirms that Phase 2 is ratesetting and recategorizes Phase 1 as ratesetting. Parties were directed to observe *ex parte* rules for communications related to Phase 2 issues beginning with the October 25, 2013 Ruling. Parties are now directed to also observe *ex parte* rules for communications related to Phase 1 issues beginning as of the date of this Amended Scoping Memo.

ALJ Jeanne M. McKinney will be the presiding officer for this proceeding.

A determination of the need for hearings will be made following the January 8, 2014 PHC.

5.2. Schedule

The Phase 2 procedural schedule is as follows:

Event	Date
Protests filed	December 23, 2013

Replies filed	January 3, 2014
Motions for Evidentiary Hearings filed	January 7, 2014
PHC held	January 8, 2014 1:30 p.m. Commission Courtroom, State Office Building 505 Van Ness Avenue San Francisco, CA 94110

The remainder of the Phase 2 procedural schedule will be set in an amended Scoping Memo and Ruling to be issued after the January 8, 2014 PHC.

The Phase 1 procedural schedule will be discussed at the January 8, 2014 PHC. In any event, consistent with Section 1701.5, the Commission anticipates that this proceeding will be completed within 18 months of the date of the issuance of this Amended Scoping Memo.

IT IS RULED that:

1. Phase 2 will address the three rate design requests filed by the utilities. The scope will be set forth in more detail in a subsequent amendment to this Amended Scoping Memo.
2. Phase 1 will address the rate design requests filed by the utilities for the period after 2014 and the utilities specific plans for transition to 2018. The scope of both phases will be set forth in more detail in a subsequent amendment to this Amended Scoping Memo.
3. The procedural schedule is as set forth herein and may be modified by the Administrative Law Judge if needed. Additional events on the procedural schedule will be set after the January 8, 2013 prehearing conference.
4. The presiding officer will be Administrative Law Judge Jeanne M. McKinney.

5. Phase 2 of this proceeding is categorized as ratesetting pursuant to Rule 7.1(a).

6. Phase 1 of this proceeding is recategorized as ratesetting pursuant to Rule 7.1(a).

7. Effective as of the date of this Amended Scoping Memo, *ex parte* communication rules for ratesetting proceedings apply to both Phase 1 and Phase 2.

8. Hearings may be required for Phase 1 and/or Phase 2, and a final determination on the need for hearings will be made at a later date in this proceeding.

9. The ED Proposal and the documents listed on Attachment A are admitted as exhibits.

10. Parties may file proposed corrections to the ED Proposal no later than January 20, 2014. Proposed corrections must be limited to correcting characterization of a party position and any factual or typographical errors.

Dated January 6, 2014, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

Michael R. Peevey
Assigned Commissioner

ATTACHMENT A**Exhibits**

Exh. No.	Description
SCE-1	SCE Bill Impact Calculator: R1206013 RRD – SCE ResOIR RD Model_v032513
SCE-2	SCE Net Energy Metering Bill Impact Calculator: R1206013 RRD – SCE_NEM Bill Impact Analysis_External Version
SDG&E-1	SDG&E Bill Impact Calculator: SDG&E_RROIR_Model_3.21.2013
SDG&E-2	SDG&E Bill Impact Calculator Model Update List: SDG&E RROIR Model Update List 3.21.2013
SDG&E-3	SDG&E Bill Impact Calculator User Guide: SDG&E RROIR User Guide 3.21.2013
PG&E-1	PG&E Bill Impact Calculator: Electric_Bill_Calculation_Tool-CPUC-Version 9 March 26-2013-FINAL_v9
PG&E-2	PG&E Bill Impact Calculator User Guide: Electric Bill Calculation User Guide-CPUC-Version 9 March 26-2013
PG&E-3	PG&E Bill Impact Calculator Methodology: Bill-Calculator-Methodology-CPUC-Version-9 March 26-2013
PG&E-4	Residential Rate OIR Customer Survey Research, dated August 8, 2013, prepared by HINER & Partners, Inc.

(END OF ATTACHMENT A)

ATTACHMENT B
Energy Division Proposal

(END OF ATTACHMENT B)